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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS
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USTR FOR CASSIDY/CHENG

E.O. 12958: DECL: 12/08/08

TAGS: [PINR](#) [KN](#) [PGOV](#) [PREL](#)

SUBJECT: // INR ASSESSMENT // - DPRK: QUACKS LIKE CAPITALISM

DOD/ISA/AP FOR SCHRIVER; NSC FOR KRISTOFF/BADER, NSA FOR
KILMER, DIA FOR NIXON, LONDON FOR HALL, ROME PLEASE PASS
EMBASSY VATICAN

THE FOLLOWING INR ASSESSMENT WAS PRODUCED BY THE OFFICE OF
EAST ASIA AND PACIFIC ANALYSIS AND IS PROVIDED FOR YOUR
INFORMATION AND COMMENT

CLASSIFIED BY ROBERT CARLIN, DIVISION CHIEF INR/EAP/NA.
REASON: 1.5 (D)

[11.](#) (C) EVEN AS PYONGYANG CONTINUES TO EXCORIATE CAPITALISM
AND INSIST THAT THE NORTH WILL "NEVER CHANGE," THERE ARE -
SIGNS THAT SOME IN THE REGIME ARE INCREASINGLY OPEN TO
EXPERIMENTING WITH CAPITALIST PRINCIPLES. BUT CONSERVATIVE
OPPOSITION AND BUREAUCRATIC INERTIA ARE STRONG, AND THE
NORTH'S LIMITED MEASURES THUS FAR WILL NOT BRING NEEDED
FOREIGN INVESTMENT.

[12.](#) (U) THIS SPRING AN OFFICIAL ECONOMIC JOURNAL CARRIED
SEVERAL ARTICLES STRESSING THE IMPORTANCE OF SUCH MARKET-
RELATED ECONOMIC PRINCIPLES AS COMPETITION, AUTONOMOUS
DECISION-MAKING, AND INCENTIVES. THE ARTICLES ARGUED THAT
THE DPRK MUST MEET THE DEMANDS OF THE CAPITALIST MARKET
THROUGH MARKET RESEARCH, STUDY OF CONSUMER BEHAVIOR, PROPER
PRICING, QUALITY CONTROL, AND ADVERTISING. THEY DISCUSSED
IN FAVORABLE TERMS JOINT-VENTURE CONTRACTS AND PROFIT-
SHARING ARRANGEMENTS, EMPHASIZING THAT FOREIGN DIRECT
INVESTMENT WOULD PROMOTE TECHNOLOGICAL DEVELOPMENT AND
IMPROVE THE QUALITY OF DOMESTIC PRODUCTS. INCENTIVES, THE
JOURNAL EMPHASIZED, ARE KEY; INCREASED PAY "INCREASES
ZEAL," AND AUTONOMY SPURS INITIATIVE.

-THE DEBATE JOINED

[13.](#) (C) THE DAY THE ARTICLES APPEARED, THE PARTY NEWSPAPER
CARRIED AN AUTHORITATIVE COMMENTARY CITING THE ALBANIAN
EXPERIENCE AS A WARNING AGAINST ABANDONING SOCIALISM.
THOUGH PROBABLY NOT WRITTEN DIRECTLY IN RESPONSE TO THE
ARTICLES, THE COMMENTARY REFLECTED SERIOUS CONCERN AMONG
CONSERVATIVES THAT THE IDEOLOGICAL DIKES WERE BEGINNING-TO
LEAK.

[14.](#) (C) THERE ARE SIGNS THAT MORE THAN THEORETICAL JOUSTING
IS GOING ON. HIGH-LEVEL OFFICIALS FAVORING PRAGMATIC
ECONOMIC MEASURES REPORTEDLY WERE DISPATCHED TO THE NORTH'S
NAJIN-SONBONG FREE TRADE ZONE TO INVESTIGATE THE NEED FOR
NEW MEASURES. IN JUNE, FOLLOWING UP THEIR RECOMMENDATIONS,
PYONGYANG IMPLEMENTED LIMITED STEPS TO PROMOTE MARKET
PRACTICES. THESE INCLUDED EXPANDING THE RANGE OF ECONOMIC
ACTIVITY AUTHORIZED IN THE ZONE AND ALLOWING NORTH KOREANS-
NOT JUST FOREIGNERS-TO ENGAGE IN PRIVATE ENTERPRISE RANGING
FROM SELLING SURPLUS FARM GOODS TO OPENING RESTAURANTS.

[15.](#) (C) THE PROCESS TOOK ANOTHER STEP FORWARD IN AUGUST
WITH PUBLICATION OF A KIM JONG IL THESIS ON REUNIFICATION.

SOUTH KOREAN FIRMS HAVE TOLD EMBASSY SEOUL THEIR DEALINGS
IN THE DPRK HAVE BECOME-MORE BUSINESSLIKE SINCE THE KIM
THESIS, WHICH APPEARS TO HAVE GIVEN NORTHERNERS AN
IDEOLOGICAL BASIS TO DEAL WITH THE SOUTH.

COLD COMFORT

16. (C) IT IS UNLIKELY THAT THE LIMITED REFORM MEASURES
UNDERTAKEN WOULD HAVE BEEN CARRIED OUT WITHOUT KIM JONG
IL'S BLESSING. NONETHELESS, UNLESS KIM EXPLICITLY STATES
THE NEED FOR BROAD ECONOMIC REFORMS, THE PROCESS WILL MOVE
SLOWLY, ALWAYS UNDER COVER OF A PRUDENT-IF TATTERED
IDEOLOGICAL VEIL. IDEOLOGICAL COVER IS NECESSARY TO
PROTECT THE REFORMERS, ALLOWING THEM TO ACCOMMODATE MARKET
ACTIVITIES AND PURSUE NEW MEASURES FOR DEVELOPMENT WHILE
PAYING PROPER OBEISANCE TO ORTHODOX BELIEFS. THESE SUBTLE
SHIFTS IN PYONGYANG'S ECONOMIC LINE WILL PROVIDE COLD
COMFORT TO POTENTIAL WESTERN INVESTORS. BUT THEY HAVE
ALREADY STRUCK A RESPONSIVE CHORD AMONG SOME SOUTH KOREAN
FIRMS AND PROMISE TO ENCOURAGE NEW ECONOMIC BEHAVIOR IN THE
NORTH. (JBADER) (CONFIDENTIAL)

PICKERING